PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-3937**
June 30, 2005

R E S O L U T I O N

Resolution E-3937. This Resolution approves Pacific Gas and Electric's (PG&E) request to establish Advanced Metering Infrastructure Memorandum Accounts (AMIMA) to record the incremental Advanced Meter Infrastructure (AMI) pre-deployment Capital-related and Operational and Maintenance expenses.

By PG&E Advice Letter (AL) 2632-G/2664-E filed on May 13, 2005

SUMMARY

This resolution approves PG&E's request to establish new Advanced Metering Infrastructure Memorandum Accounts (AMIMA) to record pre-deployment costs incurred as a result of Advanced Metering Infrastructure (AMI) pre-deployment efforts prior to the Commission's approval of PG&E's AMI Application (A.)05-03-016. This resolution grants PG&E's request to establish AMIMA accounts provided:

1. The recorded costs are limited exclusively to any necessary AMI "pre-deployment" activities;
2. The recorded pre-deployment AMI investment is understood to be made at shareholder risk until the Commission finds that such investment meets the minimum functionality criteria specified in the February 19, 2004 Rulemaking in (R.)02-06-001 and reiterated in the May 9 and May 18 2005 Assigned Commissioner Rulings (ACRs);
3. The recorded pre-deployment AMI investment is subject to reasonableness review. Capital costs must meet the Commission's used and useful standards prior to inclusion into rate base.

On June 20, 2005, SDG&E withdrew its Advice Letter 1689-E/1525-G which requested a similar AMIMA to record pre-deployment costs.

BACKGROUND

PG&E has filed an Advanced Metering Infrastructure application that includes pre-deployment activities and associated costs

The Commission issued Rulemaking (R.) 02-06-001 on June 6, 2002 to begin a process to assess ways to implement programs and tools to enable utilities to meet demand response targets. Pursuant to a July 21, 2004 ALJ Ruling, PG&E filed an Advanced Metering Infrastructure preliminary business case in October, 2004. On March 15, 2005, PG&E filed an updated AMI Business Case Analysis as part of (A.)05-03-016. PG&E believes it imperative that certain critical path AMI activities commence and continue beginning as early as July 1, 2005, pending review of the utility Applications.

PG&E expects that its design/startup expenses (pre-deployment costs) to be in excess of $49 million. PG&E suggests that the Commission provide an initial decision on the proposed pre-deployment plans and costs, and a latter decision addressing the cost-effectiveness and merits of full AMI deployment.

The utilities have been directed to demonstrate the functionality of their proposed AMI systems in order for pre-deployment costs to be approved

Assigned Commissioner Rulings (ACRs) were issued on May 9 and May 18 to provide guidance in regards to the pre-deployment plans and costs. The ACRs concluded that three primary issues must be decided before pre-approving any utility's proposed deployment of AMI: first, a finding that that proposed AMI systems meet established functionality criteria; second, the proposed AMI investment provides sufficient operational benefits to ratepayers; and third, that utilities have an effective plan for integrating AMI investment into its operating systems to ensure the full range of expected customer benefits.

The ACRs further concluded that in order to approve expenditure of ratepayer funds in advance of findings on the second and third points, i.e. for pre-deployment, the Commission must, at a minimum, be confident that the proposed AMI investment meets the functionality criteria as specified in a February 19, 2004 ACR. To this end, the ACRs ordered supplemental utility testimony that specifically addresses how its proposed technology/deployment plan meet the functionality criteria set forth in the February 2004 ruling. The ACRs also stated that the amount of pre-deployment costs should be minimized, and thus signaled to the utilities and the stakeholders the focus of their anticipated testimony. In short, the approach outlined in the ACRs creates a process by which the Commission can determine whether utility selected technology meets functionality criteria, followed by Commission authorization of a modest amount of ratepayer funds for pre-deployment activities while the merits of full deployment are considered.

PG&E seeks a memorandum account to record pre-deployment costs

In Advice Letter (AL) 2632-G/2664-E (filed on May 13, 2005) PG&E requests authority to establish two new memorandum accounts (AMIMA-E for electric and AMIMA-G for gas) to record costs associated with the AMI project in order to preserve the ability to obtain future rate recovery in A. 05-03-016. PG&E seeks broad authority to record all AMI project related expenses.

On April 27, 2005 SDG&E filed Advice Letter 1689-E/1524-G requesting similar approval of memorandum accounts to record pre-deployment costs incurred as a result of its AMI application. SDG&E notified Energy Division via its comments on this resolution that it is withdrawing its advice letter filing.

NOTICE

Notice of PG&E 2632-G/2664-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of their AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

PG&E's Advice Letter 2632-E/2664-G and SDG&E's Advice Letter 1689-E/1524-G were protested by The Utility Reform Network (TURN) on May 23, 2005.

PG&E filed its reply to TURN's protest on May 24, 2005.

DISCUSSION

Energy Division recommends granting PG&E's request to establish Advanced Metering Infrastructure Memorandum Accounts (AMIMA) for the purpose of recording pre-deployment Capital-related and Operating and Maintenance (O&M) expenses in years 2005 and 2006, incurred as a result of the AMI project prior to the Commission's approval of PG&E's AMI Application (A.)05-03-016.

Energy Division has carefully reviewed the May ACRs and concludes that the establishment of memorandum accounts prior to Commission's approval of PG&E's AMI application does not conflict with any of the specific rulings issued to date. However, the intention of the May ACRs is clear: approval of ratepayer funds for pre-deployment AMI expenditures is dependent upon an affirmative finding from the Commission that the proposed AMI systems meet the functionality criteria set forth in the Joint Commissioner and ALJ's Ruling issued February 19, 2004.

In comments filed on June 20, 2005, TURN correctly points out that PG&E's pre-deployment funding request only covers the last half of 2005, and argues that the draft resolution appears to authorize PG&E to book both pre-deployment and deployment costs. Energy Division believes that the funding period is not the critical issue; what is critical is that the recorded expenditures are strictly limited to pre-deployment activities and recovery of those expenditures depends upon product of those same expenditures to meet the functionally criteria previously outlined. PG&E is authorized to establish two new AMIMA accounts and is authorized to record AMI pre-deployment activities only for years 2005 and 2006.

Energy Division concludes that AMI pre-deployment expenses recorded in the AMIMA are subject to disallowance should the Commission find that the minimum functionality criteria set forth in the February 19, 2004 Ruling in R.02-06-001 are not met.

The May ACRs provides a procedural path by which the utilities can seek approval for expenditure of ratepayer funds for AMI pre-deployment activities. Should PG&E decide to record pre-deployment costs prior to a Commission decision on the functionality of their proposed AMI systems, such investments are made at shareholder risk. Specifically, pre-deployment costs recorded in the memorandum accounts that are not found by the Commission to have met the minimum functionality criteria will be disallowed. Furthermore costs that meet the minimum functionality

criteria would be subject to reasonableness review. PG&E expenditures directly related to full-scale AMI implementation cannot be recorded in AMIMAs.
In comments filed on June 20, 2005, TURN indicated that the draft resolution failed to reference that the May 18, 2005 ACR required an evaluation of the ability of PG&E's AMI system to accommodate Broadband Over Powerline (BPL), and net metering technology, and whether including BPL technology could strand portions of PG&E's investment. Energy Division believes that TURN misinterpreted the ACR; evaluation of BPL and net metering is to be taken up as part of the full-deployment portion of the proceeding.

TURN protested PG&E's advice letter on the grounds that the requested memorandum accounts have not been authorized by statute or Commission order.
TURN argues that R.02-06-001 did not authorize the spending or recording of the proposed pre-deployment costs. TURN instead finds that those costs were proposed in A. 05-03-016, which is currently pending before the Commission. Therefore, TURN argues, there is no justification for authorizing a memorandum account in advance of a resolution of A.05-03-016.

The establishment of memorandum accounts by the utilities simply allows the utilities to book their pre-deployment costs. There is no guarantee of cost recovery via the establishment of these accounts, and thus any costs recorded in advance of a decision on the functionality of the proposed systems are made entirely at shareholder risk.
The gist of TURN's protest is that the costs recorded in the memorandum accounts are still pending Commission approval, and thus it would be premature to approve the memorandum accounts. However since the recorded costs must pass the functionality threshold as well as undergo a reasonableness review, Energy Division is not convinced that the establishment of the accounts leads to inappropriate recovery of costs from ratepayers. Energy Division in no way suggests that its recommendation to allow the establishment of the AMIMA accounts prejudges its opinions of the utilities' pre-deployment plans or the merits of full-scale AMI implementation.

In comments filed on June 20, 2005, TURN correctly points out that the draft resolution fails to address the need for capital costs to meet the Commission's used and useful standards, so as not to conflict with the Commission's established policy of not allowing Construction Works In Progress into ratebase. Energy Division agrees that in addition to reasonableness review of PG&E's AMI pre-deployment expenditures, all capital costs must meet the Commission's used and useful standards prior to inclusion of those capital costs into rate base.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period may be reduced where the Commission has determined that relief requested is an uncontested matter, as defined in Rule 77.7(f)(2).

On June 20, 2005, SDG&E filed comments notifying the Commission that it was withdrawing its Advice Letter 1689-E / 1524-G, filed April 27, 2005, to establish the gas and electric Advanced Metering Infrastructure (AMI) memorandum accounts to record costs associated with pre-deployment costs incurred as a result of the AMI project.

On June 20, 2005, TURN filed comments on the draft resolution. First, TURN points out that the draft resolution would authorize memorandum account treatment for PG&E's 2005-2006 pre-deployment costs, despite PG&E's request for authority to record costs for the second half of 2005. Second, the draft resolution makes no mention of the evaluation of the ability of PG&E's AMI system to accommodate Broadband Over Powerline (BPL) technology, and net metering technology as criteria necessary for recovery of costs booked to the memorandum accounts. Third, the draft resolution does not address the need for capital costs to meet the Commission's used and useful standards, as capital investments must also meet the Commission's used and useful standards, lest they conflict with the Commission's established policy to disallow Construction Works in Progress (CWIP) in rate base. TURN's comments are addressed in the Discussion of this resolution.

On June 20, 2005, PG&E filed comments on Draft Resolution E-3927 requesting that the Commission clarify and revise its description of pre-deployment costs which the draft resolution defined as "start-up and design work". Specifically, PG&E expressed concern the description is too narrow and prevents PG&E from recording all AMI pre-deployment costs. PG&E requests that the Commission revise its description of pre-deployment expenses to encompass all necessary pre-deployment costs. Additionally, PG&E requests the Commission to revise the Draft Resolution to establish the effective date as of May 13, 2005, as needed to accommodate initial incidental amounts that PG&E has started to spend on pre-deployment activities.

Energy Division is not opposed to PG&E's request to revise the description of pre-deployment expenses from "start-up and design work" to encompass "all necessary pre-deployment costs". As noted earlier in this resolution, recovery of pre-deployment costs will be governed by the Commission's decision. Energy Division does not support PG&E's request to establish the effective date for the memorandum accounts as of May 13, 2005, the date the advice letter was filed. The establishment of the memorandum accounts should be made effective upon the approval of this resolution, and not established retroactively back to the advice letter filing date to accommodate PG&E's incidental spending on pre-deployment activities.

FINDINGS

1. On May 13, 2005, PG&E filed Advice Letter 2632-G / 2664-E requesting authority to establish two new Advanced Memorandum Infrastructure Memorandum Accounts (AMIMA-E for electric and AMIMA-G for gas) for purposes of recording AMI project expenditures.
2. Energy Division has reviewed the PG&E advice letter and recommends establishing AMIMAs for the purpose of recording all necessary AMI pre-deployment costs only for years 2005 and 2006.
3. All recorded costs in the AMIMA must be approved via the Commission's decision on functionality in order to be recovered from ratepayers. Costs recorded in advance of a Commission decision are at shareholder risk.
4. In the event that the Commission finds that the utility investments pass the functionality threshold, the recorded costs will also undergo a reasonableness review prior to recovery from ratepayers. Capital costs must meet the Commission's used and useful standards prior to inclusion into ratebase.
5. Evaluation of BPL and net metering is to be taken up as part of the full-deployment portion of the proceeding.
6. SDG&E has withdrawn its advice letter seeking similar memorandum accounts for AMI pre-deployment costs.

THEREFORE IT IS ORDERED THAT:

1. PG&E is authorized to establish the AMIMA-E and AMIMA-G memorandum accounts for the purpose of recording all necessary AMI pre-deployment costs only for the years 2005 and 2006.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 30, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners

Commissioner John A. Bohn being necessarily absent did not participate.